

# Minnesota Department of Finance

April 2007

## State Revenues on Target in February and March

Net general fund revenues totaled \$2.334 billion in February and March, \$5.8 million (0.3 percent) more than forecast. Corporate income tax receipts and individual income tax receipts were above forecast, while sales tax, motor vehicle sales tax, and other tax revenues were less than projected. Fiscal year 2007 receipts now total \$11.334 billion, 1.9 percent more than in fiscal year 2006.

### Summary of Tax Receipts: (February - March 2007)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,009.9	\$1,019.6	\$9.7	1.0%
Sales	653.1	634.7	(18.4)	(2.8)
Corporate	294.8	324.7	29.9	10.1
Motor Vehicles	36.7	35.6	(1.1)	(2.9)
Other	<u>333.9</u>	<u>319.6</u>	<u>(14.3)</u>	<u>(4.3)</u>
Total	\$2,328.4	\$2,334.2	\$5.8	0.3%

Corporate tax receipts showed the largest variance up \$30 million, 10.1 percent, from levels projected in February. Corporate estimated payments were \$12 million below forecast (see page 4). But, higher than anticipated miscellaneous payments and lower than projected corporate refunds were more than sufficient to offset the shortfall in corporate estimated payments. A portion of the \$30 million positive variance in corporate refunds is due to slower than anticipated processing and payment of refunds related to the Hutchinson Technology decision. Withholding receipts for the individual income tax were \$9 million above forecast. Gross sales tax receipts were also above forecast, but larger than expected sales tax refunds left net sales tax receipts below projections. The negative variance in other taxes was due to much weaker than projected insurance gross premiums tax revenue. February and March receipts for that tax were \$17 million (18.5 percent) below forecast.

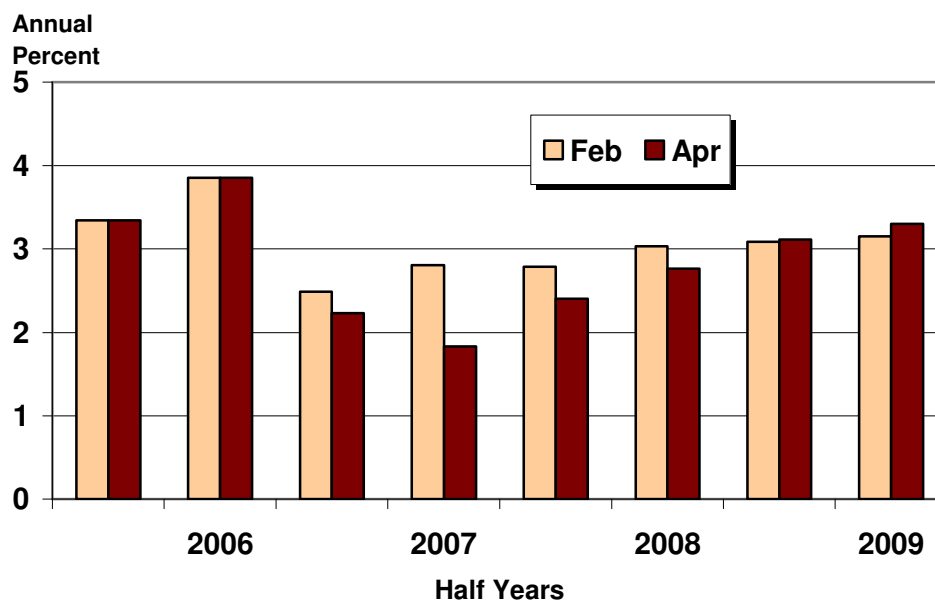
As in past years individual income tax receipts include only withholding and individual estimated tax payments. Variances for tax year 2006 refunds and final payments will not be reported until after processing of timely 2006 returns is complete. Those variances will be reported in July's *Economic Update*.

## Weaker U.S. Economy, Increased Risk of Extended Slowdown in April Forecast

Economists have grown less optimistic about the outlook for 2007. The slumping housing sector remains a major concern, but that is no longer the only potential problem. Business equipment spending has weakened and the current inventory correction may have even further to go. With no offsetting good news, forecasts for growth in 2007 and 2008 have been cut back. The change in the Blue Chip Consensus forecast, a summary of 50 top forecasters, is typical. February's Blue Chip forecast called for 2.7 percent real GDP growth in 2007. Now, the consensus expects growth at an annual rate of 2.3 percent.

Global Insight Inc. (GII), Minnesota's national economic consultant, is among those whose outlook has dropped by more than the consensus. Their April baseline forecast shows real GDP growth of 2.1 percent for calendar 2007 and 2.8 percent for 2008. February's projected growth rates were 2.7 percent and 3.0 percent respectively. Growth in the just completed first quarter of 2007 is now expected to be at an annual rate of only 1.3 percent. February's baseline anticipated real GDP growth of 2.5 percent. GII also notes an increase in inflationary pressures and has raised their projected CPI increase for 2007 to 2.1 percent, up 0.6 percentage points from February's estimate of 1.5 percent.

### Slower GDP Growth Now Expected in 2007



GII's increased concern about the economic outlook also is reflected in their alternative scenarios. They now assign a 55 percent probability to their baseline scenario, down 5 percentage points from February. A more optimistic scenario is assigned a probability of 20 percent. That scenario was given a 25 percent probability in February. A more pessimistic, hard landing scenario in which the economy grows only 1.3 percent in 2007 and 1.0 percent in 2008 is now assigned a 25 percent probability, 10 percentage points more than in February. In that scenario the economy teeters on the edge of recession, with growth declining by 0.5 percent in the third quarter of this year before beginning a slow climb back to trend (3 percent) growth in 2009.

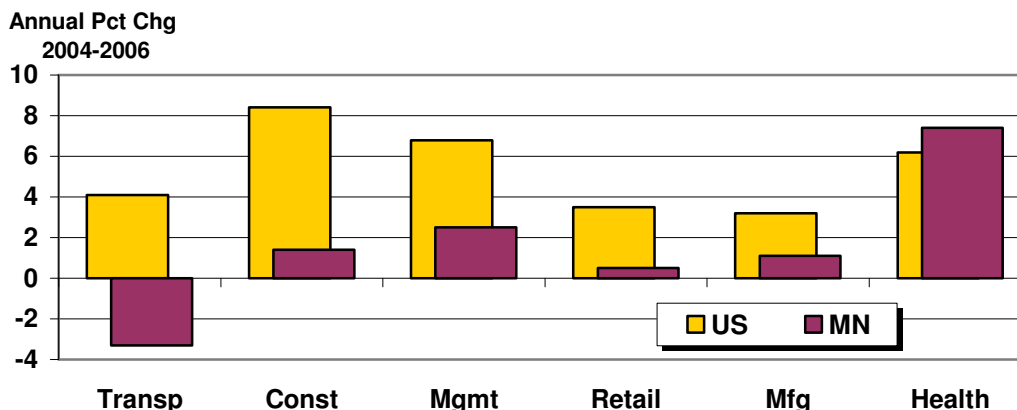
## Minnesota's Economy Underperformed the U.S. Averages in 2005 and 2006

The March state personal income report by the U.S. Department of Commerce shows that Minnesota's economy struggled during 2006. Per capita personal income grew by 3.8 percent, 1.4 percentage points less than the U.S. average of 5.2 percent. In 2006, Minnesota ranked 46<sup>th</sup> among all states in per capita personal income growth. Minnesota also underperformed the U.S. average in 2005 on this key measure of economic strength. In 2003 and 2004 Minnesota ranked 7<sup>th</sup> among states in per capita personal income. By 2006 we had fallen to 12<sup>th</sup>. In 2003 and 2004 per capita personal income in Minnesota was 109 percent of the U.S. average. In 2006, it was 107 percent.

Revisions to personal income data are common, but the state's sub-par performance over the past two years is disconcerting. A partial answer to the question of whether the weakness in the state's economy is temporary or structural can be obtained by identifying sectors where growth has been significantly weaker than the U.S. average.

The largest differences between national and Minnesota growth rates were in the transportation/warehousing and construction sectors, where per capita personal income growth in Minnesota was more than 7 percentage points less than the U.S. average. Minnesota per capita personal income in transportation/warehousing actually fell by more than 3 percent between 2004 and 2006.

### Per Capita Personal Income in Key Sectors of Minnesota's Economy Is Growing More Slowly Than the U.S. Average



The sub-par performance of Minnesota's transportation and construction sectors appears to be temporary and unlikely to be sources of long-term weakness in the state. Minnesota is also expected to hold its own in manufacturing, although auto industry layoffs will adversely affect growth in 2007 and 2008. There does not, however, appear to be any significant sector other than health care where Minnesota is likely to grow faster than the U.S. average.

## Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	2007 Fiscal Year-to-Date			February - March 2007		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
<b><u>Individual Income Tax</u></b>						
Withholding	4,321,959	4,331,436	9,477	995,900	1,005,377	9,477
Declarations	844,810	845,039	229	14,000	14,229	229
Miscellaneous	173,454	173,454	0	0	0	0
Gross	5,340,223	5,349,929	9,707	1,009,900	1,019,607	9,707
Refund	161,921	161,921	0	0	0	0
Net	5,178,302	5,188,008	9,707	1,009,900	1,019,607	9,707
<b><u>Corporate &amp; Bank Excise</u></b>						
Declarations	898,685	887,017	(11,668)	282,400	270,732	(11,668)
Miscellaneous	173,383	185,158	11,775	54,161	65,936	11,775
Gross	1,072,068	1,072,175	107	336,561	336,668	107
Refund	134,344	104,584	(29,760)	41,700	11,940	(29,760)
Net	937,724	967,591	29,867	294,861	324,728	29,867
<b><u>Sales Tax</u></b>						
Gross	3,373,575	3,381,838	8,263	689,970	698,233	8,263
Refunds	177,279	203,933	26,655	36,878	63,533	26,655
Net	3,196,296	3,177,904	(18,392)	653,092	634,700	(18,392)
<b><u>Motor Vehicle Sales Tax</u></b>						
	175,818	174,749	(1,070)	36,677	35,607	(1,070)
<b><u>Other Revenues:</u></b>						
Estate	92,192	90,176	(2,016)	15,872	13,856	(2,016)
Liquor/Wine/Beer	48,970	48,141	(829)	10,516	9,686	(829)
Cigarette/Tobacco/Cont Sub	123,192	120,802	(2,390)	34,092	31,702	(2,390)
Deed and Mortgage	178,715	183,430	4,715	31,483	36,198	4,715
Insurance Gross Earnings	222,891	205,416	(17,475)	94,400	76,925	(17,475)
Lawful Gambling	35,526	33,943	(1,583)	9,039	7,455	(1,583)
Health Care Surcharge	158,288	159,073	785	34,339	35,124	785
Other Taxes	2,106	1,022	(1,084)	514	(570)	(1,084)
Statewide Property Tax	299,687	299,731	44	0	44	44
DHS SOS Collections	40,002	40,903	900	9,186	10,086	900
Income Tax Reciprocity	63,481	63,481	0	0	0	0
Investment Income	62,145	68,812	6,667	12,177	18,845	6,667
Tobacco Settlement	180,605	180,605	0	0	0	0
Departmental Earnings	200,182	201,818	1,636	36,017	37,653	1,636
Fines and Surcharges	71,323	72,070	748	16,729	17,477	748
Lottery Revenues	30,581	27,566	(3,015)	8,433	5,418	(3,015)
Revenues yet to be allocated	1,405	1,539	135	0	135	135
Residual Revenues	55,800	54,147	(1,653)	27,319	25,666	(1,653)
County Nursing Home, Pub Hosp IGT	4,528	5,105	577	1,132	1,709	577
Other Subtotal	1,871,618	1,857,779	(13,839)	341,249	327,410	(13,839)
Other Refunds	31,356	31,797	441	7,368	7,809	441
Other Net	1,840,262	1,825,982	(14,280)	333,881	319,601	(14,280)
<b>Total Gross</b>	<b>11,833,302</b>	<b>11,836,470</b>	<b>3,168</b>	<b>2,414,356</b>	<b>2,417,524</b>	<b>3,168</b>
<b>Total Refunds</b>	<b>504,900</b>	<b>502,236</b>	<b>(2,664)</b>	<b>85,946</b>	<b>83,282</b>	<b>(2,664)</b>
<b>Total Net</b>	<b>11,328,402</b>	<b>11,334,233</b>	<b>5,832</b>	<b>2,328,411</b>	<b>2,334,242</b>	<b>5,832</b>